

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5412-02
Bill No.: HCS for HB 1955
Subject: Workers Compensation; Veterans
Type: Original
Date: March 17, 2016

Bill Summary: The proposal modifies the Workers' Compensation Law.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Insurance Dedicated Fund	Up to \$12,000	\$0	\$0
Workers Compensation	(\$254,151)	(\$239,469)	(\$241,722)
Second Injury Fund	(\$705,132)	(\$712,183)	(\$719,305)
Total Estimated Net Effect on <u>Other</u> State Funds	(Up to \$947,283)	(\$951,652)	(\$961,027)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Workers' Compensation Administration	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the dollar amount of the effect on the premium base used to calculate the administrative tax and Second Injury Fund Surcharge is unknown.

DOLIR officials stated the Division's Self-Insurance Unit regulates 285 Individual Self-Insured Employers and 20 Group Trusts, consisting of 2,700 employers, as of 11/30/2015. Self-Insurance is 29.88% of the Missouri Workers' Compensation premium base. The Individual Self-Insurers and Group Trusts are required to submit reports on an annual and/or quarterly basis, which includes detailed losses. This proposal has the potential to increase the workload in that staff will now be required to review and track the losses based on the applicable split-point for a given year. Two Insurance Financial Analyst I/II would be required to assist with the examination, review, follow-up and other duties associated with enforcing compliance with statutory reporting requirements for injuries and medical costs by self-insured employers and group-trusts.

DOLIR officials also state the Contractors Credit Premium Adjustment Program (CCPAP) currently mandates the use of the 3rd quarter payroll for calculating the credit (new contractors use the 1st quarter of the policy period). The proposal allows the contractor to choose the quarter the payroll information is being submitted in order to calculate the premium credit. The contractor will most likely choose to report the quarter with the highest payroll which would give him the higher premium credit. However, the increase in the premium credit is limited to the amount that the contractor's payroll in the selected "reporting" quarter is greater than the 3rd quarter. For example, if the contractor's 3rd quarter payroll is \$800,000 and the 2nd quarter is \$1,000,000 the amount of the premium credit is only affected by the \$200,000 difference.

The proposed legislation would likely increase the overall premium credit and therefore result in a reduction in the overall workers' compensation premium base. The highest quarter's total wages in the construction industry for 2014 was \$116,128,510, more than the third quarter's wages in 2014. Using the 2015 self-insurance rate for the construction class codes of \$10.12 per \$100 in wages, the net effect to the premium base is calculated at \$11,752,205.

With the 2016 Workers' Compensation Administrative Tax at 1%, this results in a \$117,522 (\$11,752,205 x .01) reduction to the Workers' Compensation Fund. With the 2016 Second Injury Surcharge rate at 6% this results in a \$705,132 (\$11,752,205 x .06) reduction to the Second Injury Fund.

ASSUMPTION (continued)

According to the Actuarial Analysis conducted by the National Council on Compensation Insurance: *“as part of the rate making process, loss costs for eligible contracting classifications are increased in order to offset the anticipated premium credit due to the Missouri Contracting Classification Premium Adjustment Program (MCCPAP). Therefore, any increase in premium credits would not have an impact on overall system costs, but would result in an offsetting increase in loss costs for eligible contracting classifications.”*

DOLIR officials assume additional computer programming to enhance the current production system to assist staff in analyzing medical cost incurred by self-insured employers and group trust to meet the requirements of the proposal. These enhancements would include several screen revisions, database changes and related work to accommodate anticipated requirement at a total cost of \$26,244. DOLIR does not anticipate the remaining portions of the bill will involve computer related changes.

Oversight will use the DOLIR's estimate of revenue reductions to the Workers' Compensation Fund and the Second Injury Fund in this fiscal note. Oversight will also include a cost to the Workers's Compensation Fund for the estimated additional employees and the ITSD cost.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume this proposal would have a positive impact on their organization.

DIFP estimates up to 240 policy amendments with the passage of this bill. Policy amendments must be submitted to DOLIR for review along with a \$50 filing fee. One time additional revenues to the Insurance Dedicated Fund are estimated to be up to \$12,000.

DIFP states additional staff and expenses are not being requested with this single proposal, but if multiple proposals pass during the legislative session which require policy form reviews the department will need to request additional staff to handle increase in workload.

Officials at the **Office of Administration - General Services, Office of Administration - Accounting, Department of Economic Development - Workforce Development, and Office of Attorney General** each assume this proposal would not have a fiscal impact on their respective organizations.

In response to a previous version, officials at the **Department of Public Safety - Veterans Commission, Department of Transportation, and Department of Conservation** each assumed the proposal would not have a fiscal impact on their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
INSURANCE FUND			
<u>Revenue - Insurance Dedicated Fund</u>			
Estimated 240 policy amendments with a filing fee of \$50	<u>Up to \$12,000</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON INSURANCE FUND	<u>Up to \$12,000</u>	<u>\$0</u>	<u>\$0</u>
WORKERS' COMPENSATION ADMINISTRATION FUND			
<u>Cost - DOLIR</u>			
Salaries	(\$62,580)	(\$75,847)	(\$76,605)
Benefits	(\$31,067)	(\$40,905)	(\$41,112)
Equipment and expense	<u>(\$42,982)</u>	<u>(\$4,020)</u>	<u>(\$4,121)</u>
Total Cost - DOLIR	(\$136,629)	(\$120,772)	(\$121,838)
FTE change - DOLIR	2 FTE	2 FTE	2 FTE
<u>Revenue reduction - DOLIR</u>			
Experience rating procedure change Section 287.957 & 287.975	<u>(\$117,522)</u>	<u>(\$118,697)</u>	<u>(\$119,884)</u>
ESTIMATED NET EFFECT ON WORKERS' COMPENSATION ADMINISTRATION FUND	<u>(\$254,151)</u>	<u>(\$239,469)</u>	<u>(\$241,722)</u>
Estimated Net FTE effect on Workers' Compensation Administration Fund	2 FTE	2 FTE	2 FTE
SECOND INJURY FUND			
<u>Revenue reduction - DOLIR</u>			
Experience rating procedure changes Section 287.957 & 287.975	<u>(\$705,132)</u>	<u>(\$712,183)</u>	<u>(\$719,305)</u>
ESTIMATED NET EFFECT ON SECOND INJURY FUND	<u>(\$705,132)</u>	<u>(\$712,183)</u>	<u>(\$719,305)</u>

FISCAL IMPACT - Local Government

FY 2017
(10 Mo.)

FY 2018

FY 2019

\$0

\$0

\$0

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which are subject to workers' compensation insurance requirements.

FISCAL DESCRIPTION

The bill specifies that independent contractors providing application of agricultural materials used in crop dusting, seeding, spraying, or fertilizing operations from an aircraft are not statutory employees for the purposes of workers' compensation.

This bill exempts veterans' organization volunteers who are not paid wages from coverage under workers' compensation statutes.

An explanation of benefits delivered with final payment evidencing that the payment is considered to be full payment of the medical charges in a workers' compensation case will serve as a notice of dispute of the charges. Notice is to be sent through USPS by certified mail, first class mail using Intelligent Mail barcode, or some other mail tracking system.

This bill allows the Division of Workers' Compensation to continue to pay, on an ongoing basis, Second Injury Fund liabilities for physical rehabilitation payments; medical expenses for injuries to employees of uninsured employers occurring prior to January 1, 2014; and wage loss benefits for wages lost from secondary employment for injuries occurring prior to January 1, 2014, without regard to the priority of other fund liability payments.

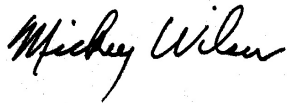
Currently, the rating plan prohibits an adjustment to the experience modification of an employer if the total medical cost does not exceed \$1000. This bill changes that amount to 20% of the current split point of primary excess losses under the uniform experience rating plan.

The bill allows construction employers to submit payroll information to the advisory organization that makes the uniform classification system in order to calculate the premium credit under the Missouri contracting classification premium adjustment program.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Department of Economic Development
Office of Administration
Department of Conservation
Department of Transportation
Department of Public Safety
Office of Attorney General
Department of Insurance, Financial Institutions and Professional Registration



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